Secondary Capital for Credit Unions Fact Sheet

Problem

- Rural communities and communities of color are disproportionately affected by climate change. Those same communities are often disproportionately served by credit unions and community development financial institutions (CDFIs).
- The opportunities presented by a greening economy (startup solar installation companies), and the challenges presented by having to mitigate the impacts of climate change (hurricane/wildfire damage) often force credit unions to grow, and grow quickly.
- In order to continue to meet regulatory requirements as they grow, credit unions turn to the only external instrument for loss absorption they have; secondary capital (banks have more instruments available to them.)
- Under NCUA section 107, only low-income designated credit unions (LICUs) are permitted to access secondary capital. The climate challenges and opportunities we face far outstrip the ability of those LICU institutions to supply capital.
- Secondary capital for credit unions has historically been provided by philanthropic organizations or as loans. Supply doesn't begin to meet demand.

Solution

- The NCUA should expand access to secondary capital to credit unions engaging in climate mitigation and green opportunity financing, removing the restriction that limits secondary capital to LICU institutions and essentially designating climate mitigation and opportunity finance in the same special category as low-income lending.
- Credit unions also need an injection of long-term, low-cost capital to enable rapid expansion of their lending capacity in the communities most affected by our current overlapping crises.
- Treasury should consider a $500M direct investment of secondary capital in credit unions, including community development financial institutions (CDFI) certified credit unions, to support loans growing green economy jobs and mitigating the effects of climate change in the US' most vulnerable communities
- This is not without precedent. In 2010, Treasury made an investment of secondary capital in CDFI-certified credit unions of $70M, every dollar of which resulted in $60 in loans over the intervening years.
- Treasury could also consider setting up financial supports or subsidies to support private actors in providing long-term low-cost capital in the secondary capital market

US into global leadership…

- Credit unions are a pillar of financial systems around the world, and play an especially central role in emerging economies. The US has a chance to re-activate latent power and influence in these economies by creating policy that demonstrates how this often underestimated model can be instrumental in both meeting pressing needs and stepping up to transformative opportunities.

Climate impact

- Communities most impacted by a changing climate--rural communities, communities of color--would have greater access to the capital they need to exercise autonomy in responding to the effects of climate change in their communities; both mitigating its effects and joining the economic revolution springing up in its wake (green jobs, new industries, innovations, the new economy that is emerging and taking shape every day)

Relevant Documents

- CDCUs Receive Nearly $70MM from Community Development Capital Initiative , September 2010, *available at* : https://www.cuinsight.com/press-release/cdcus-receive-nearly-70mm-from-community-development-capital-initiative
- Community Development Financial Institutions: A Study on Growth and Sustainability, June 2011, *available at* : *https://www.cdfifund.gov/Documents/(64)%20CDFIs%20A%20Study%20on%20Growth%20and%20Sustainability.pdf*
- National Credit Union Association, Field of Membership Expansion, Serving the Underserved, November 2020, *available at* : *https://www.ncua.gov/support-services/credit-union-resources-expansion/field-membership-expansion/serving-underserved*